

Message Text

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PAGE 01 ROME 02441 281833 Z

46

ACTION INR-09

INFO OCT-01 EUR-25 EA-11 ADP-00 EB-11 TRSE-00 CIAE-00

NSAE-00 RSC-01 INRE-00 RSR-01 /059 W

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P R 281733 Z MAR 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 8021

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY TOKYO

C O N F I D E N T I A L ROME 2441

E. O. 11652: GDS

TAGS: EFIN/ IT

SUBJECT: CURRENT INTERNATIONAL FINANCIAL SITUATION (C- EB-57203)

REF: (A) STATE 54202 (B) ROME A-155, MARCH 19, 1973

1. SUMMARY. FOLLOWING ARE REPLIES TO QUESTIONS RAISED REFTEL A.
PARA NUMBERS OF RESPONSES CORRESPOND TO PARA NUMBERS OF
QUESTIONS

REFTEL A. IN VIEW OF ABSENCE OF HIGH- LEVEL ITALIAN OFFICIALS AND
SENSITIVITY OF THESE ISSUES, REPLIES IN SOME CASES CONSTITUTE
EDUCATED GUESSES AS TO PRECISE ITALIAN POSITION ON THESE QUES-
TIONS. END SUMMARY.

2. WE HAVE NO INFORMATION IN ROME DIFFERENT FROM THAT REPORTED
FROM USMISSION BRUSSELS ON RULES FOR MAINTAINING JOINT EC FLOAT
IN WHICH ITALIANS, IN ANY CASE, NOT PARTICIPATING. WE HAVE NO
INFORMATION ON SPECIAL INTRA- EC SWAPS BETWEEN BANK OF ITALY AND
OTHER EC CENTRAL BANKS, APART FROM NORMAL EC VERY SHORT, SHORT
AND MEDIUM TERM FACILITIES. WE WILL ATTEMPT TO DETERMINE IF ANY
NEW SWAP LINES HAVE BEEN AGREED TO OR ARE CONTEMPLATED. WE DO NOT
BELIEVE THAT ITALIANS HAVE SET ANY FIXED LIMITS AS TO EXTENT OF
THEIR INTERVENTION IN EXCHANGE MARKETS. UNLIKE PARTICIPANTS IN EC
" SNAKE," ITALIANS HAVE NO OPEN- END COMMITMENT IN ANY CASE. AS
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PAGE 02 ROME 02441 281833 Z

PREVIOUSLY REPORTED, WE BELIEVE ITALIAN INTERVENTION WILL BE MOTIVATED BY THREE FACTORS: DESIRE TO MAINTAIN FLEXIBLE LINK WITH MOVEMENTS OF MBFR TO THE CENTRAL REGION COULD AVOID THE DANGER OF SOVIET TOUCHING THE FLEET IN MBFR AND THAT THE REAL THREAT TO THE SIXTH FLEET LAY INSTEAD IN SALT- TWO UNDER THE FBS RUBRIC. WHILE HOPING THAT US OFFICIALS WOULD TRY THIS SUGGESTION OUT DURING ADREOTTI'S UPCOMING VISIT, ROTH IS NOT SANGUINE THAT THE US OR ITALY WILL GO ALONG. HE THEREFORE PROPOSED ENGAGING THE SOVIETS, PARALLEL TO CURRENT TALKS ON THE STATUS ISSUE, IN CONVERSATIONS ON ESSENTIAL ITEMS OF AN MIT COMMUNIQUE, PARTICULARLY DATE, VENUE, AND AN AGREED DESCRIPTION FOR MBFR, WHICH ALSO COULD SERVE AS AN AGENDA. ROTH SAID HE NOTED POSITIVE US REACTIONS TO THIS IDEA. HE INDICATED THAT THE FRG COULD, IF ABSOLUTELY NECESSARY, AGREE AT A LATER POINT TO SPECIAL STATUS FOR HUNGARY PLUS A NON-CIRCUMVENTION CLAUSE, BUT ONLY WITH THE GREATEST RELUCTANCE AND RESERVATION.

4. US CONGRESSIONAL PRESSURES: THE OVERRIDING MESSAGE FROM US OFFICIALS, REPORTED ROTH, WAS THAT THE PRESIDENT MUST GET THE MBFR NEGOTIATIONS STARTED THIS AUTUMN TO RESIST WAXING CONGRESSIONAL PRESSURES FOR UNILATERAL US TROOP CUTS. WHILE THIS US/ FRG CONCERN IS NOT A NEW ONE, ROTH SAID HE WAS STRUCK BOTH BY ITS CURRENT INTENSITY, PARTICULARLY IN THE WHITE HOUSE, AND BY THE CONNECTION
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PAGE 03 BONN 04548 02 OF 03 281825 Z

WITH NON- MANSFIELD ASPECTS OF THE US EXECUTIVE LEGISLATIVE " CONFRONTATION". ROTH THEREFORE IS EMPHASIZING TO SENIOR FRG COLLEAGUES THAT THE CHOICE AHEAD LIES BETWEEN UNILATERAL AND MBFR TYPE US FORCE CUTS; THE MAINTENANCE OF CURRENT LEVELS OF US DEPLOYMENTS IS NOT RPT NOT VIA-
BLE.

5. FRG DOMESTIC PRESSURES: AS ROTH INFORMED THE DEPUTY SECRETARY, THE GERMAN GOVERNMENT IS READY TO SUPPORT MBFR- I REDUCTIONS LIMITED TO STATIONED US AND SOVIET FORCES. BUT BONN EXPECTS THIS APPROACH WILL SHARPEN ALREADY ACUTE PRESSURE IN GERMANY AND OTHER EUROPEAN ALLIED COUNTRIES TO REDUCE DEFENSE

EXPENDITURES, CONSCRIPTION AND OTHER MILITARY SERVICE REQUIREMENTS. ROTH SAID THE FRG AND ITS EUROPEAN ALLIES MUST BE ABLE TO EXPLAIN TO ITS PUBLIC OPINION AND PARLIAMENTARY BODIES WHY US FORCES ARE LEAVING WHILE BUNDESWEHR FORCES REMAIN AT THEIR POSTS, AND WHY THE GERMAN DEFENSE BUDGET MUST REMAIN OVER 25 PER CENT OF TOTAL EXPENDITURES IN A TIME OF DETENTE. THE DISTINCTION BETWEEN BUNDESWEHR DISARMAMENT AND US FORCE RELOCATIONS IS AN ACCURATE BUT IN ROTH'S VIEW INADEQUATE EXPLANATION SINCE EUROPEANS FAVOR DISARMAMENT.

6. CONSTRAINTS AND PHASED APPROACH: SO FAR, THE FRG HAS STRESSED TO ITS PUBLIC THE EXTREMELY RISKY AND COMPLEX CHARACTER OF MBFR AND THE NEED TO PROCEED IN A CALCULABLE AND STEP-BY-STEP MANNER. ROTH SAID THE GERMAN GOVERNMENT ALSO COULD EXPLAIN THAT INITIAL US AND SOVIET TROOP CUTS WERE MORE IN THE NATURE OF A "GOODWILL GESTURE" BY THE SUPER POWERS, A KIND OF WAGER THAT MBFR WOULD DEVELOP FURTHER. THE GERMANS WOULD HOPE TO EXPLOIT THIS ANALYSIS BY SECURING AGREEMENT ON SOME COLLATERAL CONSTRAINTS, IF POSSIBLE PRIOR TO REDUCTIONS BUT, IN VIEW OF LIKELY SOVIET RESISTANCE, MORE LIKELY SIMULTANEOUS WITH A REDUCTIONS AGREEMENT. BONN THEN COULD ARGUE THAT GERMAN INTERESTS WOULD BE ADEQUATELY PROTECTED THROUGH THESE CONSTRAINTS TOGETHER WITH CSCE/ CBM'S, A POSSIBLE LIMITED DURATION

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PAGE 04 BONN 04548 02 OF 03 281825 Z

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*** Current Handling Restrictions *** n/a

*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts:
Control Number: n/a
Copy: SINGLE
Draft Date: 28 MAR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973ROME02441
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GDS
Errors: n/a
Film Number: n/a
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730343/aaaaimyn.tel
Line Count: 157
Locator: TEXT ON-LINE
Office: ACTION INR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 73 STATE 54202, 73 ROME A-155
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 01 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01-Aug-2001 by willialc>; APPROVED <07-Sep-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> jms 980113
Subject: CURRENT INTERNATIONAL FINANCIAL SITUATION (C- EB-57203)
TAGS: EFIN, IT, n/a
To: BONN
EC BRUSSELS
INR
LONDON
OECD PARIS
PARIS
SECSTATE WASHDC

TOKYO

Type: TE

Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005